

IV. QUANTIFYING THE COSTS OF THE DEMONSTRATIONS

The demonstrations will generate new costs for the federal government, state and local FSP offices, and demonstration partners. The specifications for reporting these costs must identify all the important components of costs that can be quantified, such as the costs of demonstration design, staff training, publicity, changes in the administrative costs of the FSP, and changes in food stamp benefits due to the demonstrations. The costs of volunteer time should also be estimated.

This chapter describes the design for quantifying the costs of the demonstration and for assessing the net effect of the demonstrations on FSP expenditures for benefits and administrative costs. Section A describes the research objectives and questions that will be addressed by the cost analysis. We then present an overview of an approach for estimating program costs and the data needed to conduct the analyses. Subsequent sections describe the types of costs that the federal government, demonstration sites, nonprofit partners, and the comparison sites will incur.

A. RESEARCH OBJECTIVES AND QUESTIONS

The objective of the cost analysis is to quantify, to the extent possible, the Federal, State, and local administrative costs of the demonstrations.

The demonstrations could affect the costs of the federal FSP program in two main ways: by affecting the amount of FSP benefits paid and by affecting the administrative cost of providing each dollar of benefits. For the most part, federal funds cover all the costs of the food stamp benefits and 50 percent of the state's costs of administering the program. So the costs to the

federal FSP include the sum of the change in FSP benefits paid and 50 percent of the state and local FSP's costs of administering the demonstration.¹

The evaluation will also measure the costs to the grantees and their nonprofit partners associated with the start-up of the demonstration, serving clients under the demonstration, and reporting for the USDA and the evaluators. These costs include costs of paid staff and imputed costs of volunteer labor and donated items.

Key research questions include:

- What costs are associated with the initial start-up of the demonstrations?
- What are the major costs associated with the ongoing administration of the demonstrations?
- What benefit amounts are paid out under the demonstrations?
- What is the net effect of the demonstrations on federal FSP expenditures, and expenditures to state and local agencies?

B. METHODOLOGICAL APPROACH

To develop an estimate of demonstration program costs, we recommend that the evaluation rely on an approach that bases cost estimates on information collected through staff interviews about the use of staff and other resources in implementing the program, supplemented by data on costs obtained from the quarterly reports sites submit. We recommend relying primarily on detailed staff interviews that use protocols for examining costs on how staff time is used and how much time is required for various demonstration-related activities. This approach, sometimes referred to as the “building-up” cost estimation approach (see Ohls and Rosenberg 1999), will

¹In addition, the federal government will incur costs associated with evaluating the demonstrations. These include the costs of the contracts issued to design and evaluate the demonstrations.

help ensure consistency across all sites in the way costs are measured and will make it possible to include all relevant costs.

Our experience in other FSP evaluation work suggests that administrative cost data as reported either by demonstration sites or by states is seldom sufficiently detailed for meeting the analytic objectives of an evaluation. Often, available administrative data are aggregated into one or only a small number of functional categories (for example, issuance, eligibility, etc.) and/or they are aggregated principally by line item (staff, computer, and other). Neither case makes it possible to focus on the specific costs at issue for a demonstration evaluation, such as the cost changes associated with outreach or the costs of the staff time spent working with their nonprofit partners involved in demonstration operations.

Another problem with administrative data is that the data systems that produce them are usually designed for cost reimbursement or audit purposes, and do not necessarily reflect the types of accounting conventions that would facilitate evaluation work. To take one important example, methods for allocating joint costs are often structured on an *average cost* basis and do not reflect *marginal costs*, which often are more relevant in an evaluation context. Marginal costs, or the change in costs due to the demonstration, are appropriate for activities (such as processing applications) that occur regardless of the demonstration. Further, even within the context of an average cost perspective, cost allocation procedures can often vary dramatically between program offices.

In light of these factors, cost estimation procedures that rely on detailed staff interviews of how staff allocate their time and of how long they typically spend on demonstration-related activities are of particular interest. The resulting information then can be converted to dollar terms, based on salary mid-point information by labor category, together with estimates of fringe and overhead costs.

We recommend this approach because, other than the food benefits themselves, staff time will be by far the largest cost element of these demonstrations. The information about labor costs can be supplemented with direct cost information about any non-labor cost that appears to be important, such as payments to vendors or to other organizations involved in demonstration activities.

Key advantages of this approach of “building-up” cost estimates from detailed interview data are that it allows the evaluators to retain control over how costs are defined, and it makes it possible to disaggregate costs to whatever level of detail is necessary to meet evaluation objectives (Ohls and Rosenberg 1999).

This technique can be used directly to estimate the labor costs associated with the demonstrations, as well as to identify new labor functions associated with these demonstrations and their approximate costs. It also makes it possible to focus specifically on changes in costs associated with demonstration activities, by focusing the questioning protocols on the activities of particular interest. Also, by disaggregating changes in costs in different components, it will be possible to assess the degree to which any changes in direct costs at the FSP offices are offset by costs to the partners.

The quarterly reports are likely to also contain some data on demonstration costs for the evaluation. These reports might offer a convenient way to find out certain types of needed information that is clearly included in disaggregated form in these administrative reports. For example, it is possible that payments to vendors or other third parties would be shown directly as line items in these reports. In addition, it will be important to broadly reconcile the patterns shown in the administrative reports with those shown in the more detailed analysis described above. For instance, if patterns of changes appear to be different in the two sets of reports, it will be important both to avoid errors and to ensure the face validity of the findings to be able to

explain the reasons for the differences, such as possible differences in how key cost elements are allocated across programs.

With regard to the issue of in-kind labor and other donated items, when cost results are sensitive to these items, we recommend developing two sets of cost estimates. One set would be based solely on *monetary* costs, without including donated time or goods. A second set might include donated time and goods valued at roughly their retail market value. For instance, various types of labor time (such as delivering commodity packages) could be valued at roughly the average wage rates of similar workers in the public or private sectors. Similarly, food that is distributed could be valued at its retail prices using a sampling approach, if necessary, to estimate this.²

To collect these data, we recommend that the evaluators prepare for each site a set of cost worksheets that request detailed information about demonstration cost components and instructions for filling out the worksheets. After the sites have a chance to review the worksheets, someone from the evaluation team should call the sites to answer questions and help the respondents fill out the worksheets, as needed. The evaluators should carefully review the worksheets to ensure completeness and consistency and follow up with the respondents as needed.

When the data elements from the worksheets are complete and internally consistent, the data can be entered into an Excel spreadsheet template to compute the desired unit costs by component.

²The two approaches above to valuing donated labor time can be thought of as placing a lower bound (that is, zero) and an upper bound (market prices) on the value of donated labor and goods. If desired, possible intermediate approaches could be considered as well, such as using the minimum wage for donated labor and using wholesale prices for donated goods.

C. FEDERAL COSTS

The demonstrations could affect the costs of the federal FSP program by affecting the amount of FSP benefits paid and by affecting the administrative cost of providing each dollar of benefits.

1. Changes in the Costs of FSP Benefits

The demonstrations, if successful, will increase participation and hence the total amount of benefits. As discussed in Chapter II, they might also affect the average value of benefits paid if there is greater FSP participation among low- or high-benefit groups or if households who select the commodity alternative are, on average, eligible for a higher or lower food stamp benefit amount. Table IV.1 illustrates how the evaluators can compute an estimate of the change in total FSP benefits for the elderly for each site. Table IV.2 illustrates how to compute the change in total FSP benefits due to the commodity option in Connecticut and North Carolina. Table IV.3 indicates the distribution of FSP benefits for the individuals/households who selected the commodity option.

2. Changes in the Administrative Costs of Providing Benefits

The evaluation will measure the cost of ongoing administration of the demonstrations, as described in Section D. One-half of the administrative costs incurred by local and state FSP offices will be the change in the federal administrative costs of providing benefits.

D. COSTS TO THE STATE/LOCAL GRANTEES AND THEIR NONPROFIT PARTNERS

The evaluation will measure the costs to the grantees and their nonprofit partners associated with the start-up of the demonstration, serving clients under the demonstration, and reporting for

TABLE IV.1

CHANGE IN AVERAGE FSP BENEFITS FOR
THE ELDERLY DUE TO DEMONSTRATION

SITE NAME

	Beginning of Demonstration	Year 1	Difference	Year 2	Difference
Treatment Site(s)					
Number of elderly FSP participants					
Average level of benefits					
Total amount of FSP benefits					
Comparison Sites					
Number of elderly FSP participants					
Average level of benefits					
Total amount of FSP benefits					
Treatment-Comparison site difference					
Number of elderly FSP participants					
Average level of benefits					
Total amount of FSP benefits					

NOTE: The total amount of FSP benefits might not equal the product of the number of elderly FSP participants and the average level of benefits because the number of participants will vary from month to month.

TABLE IV.2
CHANGE IN FSP BENEFITS FOR THE ELDERLY WHO
SELECT THE COMMODITY OPTION

SITE NAME

	Year 1	Year 2	Total
Benefit value of commodity package			
Number of commodity packages delivered			
Total value of commodity benefits			
Total FSP benefits for which demonstration participants are eligible			
Change in FSP Benefits			

NOTE: The benefit value of the commodity package includes the federal cost of the commodities and the shipping cost. It does not include the costs that the federal government pays for storage.

TABLE IV.3
DISTRIBUTION OF FSP BENEFITS
AMONG THE ELDERLY WHO SELECT THE COMMODITY OPTION

SITE NAME	FSP Benefit Amounts for Which Individuals Are Eligible			
	Minimum (\$10 or less)	< Commodity Benefit	≥ Commodity Benefit	75-100% of Maximum Benefit
Year 1				
Year 2				

NOTES: For year 1, the commodity benefit value is \$____ (to be determined), the maximum benefit is \$____, and a total of ____ individuals selected the commodity option. For year 2, the commodity benefit value is \$____, the maximum benefit is \$____, and ____ individuals selected the commodity option.

the USDA and the evaluators. This section discusses the components of costs that the state/local grantees and their nonprofit partners will incur.

1. Demonstration Start-Up Costs

As indicated in Table IV.4, the demonstration start-up costs for each organization participating in the demonstration include the costs of demonstration design, contracting with demonstration partners, management (hiring and overseeing staff), publicity/outreach, information systems modifications, obtaining waivers from the USDA, and training staff.

For all of these components of cost, with the possible exception of publicity, the primary costs are labor costs. For example, the cost of designing each commodity package demonstration includes the costs of designing the contents of the commodity packages, determining the delivery system, developing a staffing plan, and planning for inventories. For every demonstration activity, evaluators should complete a table similar to Table IV.5 based on interviews with demonstration staff and the grantees' quarterly reports. Table IV.5 lists the type of staff, hours, and hourly rates for all people—paid staff and volunteers—who worked on demonstration activities.

For demonstration activities that would not take place without the demonstration—such as contracting with demonstration partners—total labor hours should be reported in Table IV.5. For demonstration activities that would also occur without the demonstration—such as processing FSP applications and conducting publicity/outreach activities—the evaluators should measure the *change* in labor hours due to the demonstration.

The cost of volunteer labor is an important part of labor costs. Each demonstration will need to identify all the demonstration activities that volunteers perform and develop a system for collecting the number of hours they worked. The sites and evaluators will work together to

TABLE IV.4
COSTS OF IMPLEMENTING THE ELDERLY
NUTRITION DEMONSTRATIONS

SITE NAME					
Type of Cost	Grantee	Partner 1	Partner 2	Partner 3	Total
Demonstration Design					
Simplified application design and production					
Application assistance design					
Commodity package design					
Contracting with demonstration partners					
Management					
Hiring staff					
General oversight and planning					
Publicity/Outreach					
Information systems modifications					
Obtaining waivers from USDA					
Training staff					
Purchasing equipment					
Providing data for the evaluation design					

NOTES: Nominal dollar amounts are shown. Includes imputed costs of volunteer labor and donated items.

TABLE IV.5

LABOR COST OF [ACTIVITY NAME]
 ORGANIZATION NAME
 PILOT NAME

Number of People	Type of Staff	Hours per Person	Total Hours	Hourly Rate	Fringe Benefits	Total Labor Costs
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NOTES: A separate table will be prepared for each demonstration activity. Total labor hours will be reported for activities that would not take place without the demonstration, such as contracting with demonstration partners. The change in labor hours due to the demonstration will be reported for demonstration activities that would occur without the demonstration, such as processing FSP applications. Demonstration activities that have a labor component include:

- Demonstration design
- Contracting with demonstration partners
- Demonstration implementation management
- Publicity/outreach
- Management/oversight of demonstration operations
- Information systems modifications
- Obtaining waivers from USDA
- Processing Applications
- Working with demonstration partners
- Working with and paying vendors
- Maintaining commodity package inventories
- Taking orders for commodity packages
- Planning and preparing commodity packages
- Delivering commodity packages
- Providing data and reports to USDA
- Providing data to the evaluators

Nominal dollar amounts are shown

determine how to assign a monetary value to each type of volunteers' time. Possible values that could be placed on the value of volunteer's time include their hourly wage in paid employment, the hourly wage of local workers in the industry who do similar work, or the minimum wage. The approach used to value volunteer time might vary, depending on the nature of the volunteer work.

2. Costs of Serving Clients During the Demonstration

The costs of serving clients during the demonstration include the costs of processing applications (for the simplified application pilot), providing assistance (for the application assistance pilots), and preparing and delivering commodity packages (for the commodity alternative pilots). The evaluators can summarize these costs separately for each participating organization in a manner similar to Table IV.6.

Administrative costs incurred by the FSP offices will change if the demonstration results in a change in the number of FSP participants or in the average amount of time needed to process an application. If the level of FSP participation changes, as determined by the methods described in Chapter II, then the administrative costs associated with this change is the average administrative cost per case multiplied by the change in the number of elderly FSP participants due to the demonstration. If data on average administrative cost per case are not available for the local FSP office(s), then the evaluators can use an estimate of the average administrative cost per case for the state, which should be available. If the demonstration has an effect on the average time needed to process an application (this time should decline in the simplified eligibility pilot), then the evaluators should estimate this change in administrative cost also.

TABLE IV.6

COSTS OF SERVING CLIENTS UNDER THE DEMONSTRATION

ORGANIZATION NAME
PILOT NAME

Type of Cost	Amount			Total
	Pre-demonstration	Year 1	Year 2	
Labor Costs				
Publicity/Outreach				
Processing applications				
Providing application assistance				
Explaining commodity benefit				
Management				
Working with partners				
Hiring/supervising staff				
Demonstration oversight				
Distributing commodities				
Taking orders from clients				
Ordering USDA commodities				
Producing packages				
Maintaining inventories				
Delivering packages				
Non-labor Costs				
Supplies				
Rent				
Insurance				
Utilities				
Equipment				
Computers				
Transportation				
Storage and refrigeration				
Containers				
Other				
Donated items				
Donated space				
Commodity storage				
Commodity transportation				
Travel				
Total Costs				

NOTES: Nominal dollar amounts are shown. Includes imputed costs of volunteer labor. Total labor hours are reported for activities that would not take place without the demonstration. The change in labor hours due to the demonstration is reported for demonstration activities that would occur without the demonstration.

3. Costs of Producing Reports and Providing Data

Each pilot will produce reports (such as the quarterly reports) for the USDA and provide data to the evaluators. Table IV.7 summarizes these costs.

E. COSTS TO THE COMPARISON SITES

Except for two comparison counties in the simplified application demonstration, the comparison sites will not directly incur any costs associated with the demonstration. However, as explained below, under some circumstances it will be helpful to obtain information on the general administrative costs the comparison sites incur.

In the simplified demonstration, both the treatment counties (Gadsden and Leon counties) and the comparison counties suggested by Florida's Department of Children and Families (Jackson and Alachua counties) will use a one-page, simplified application for elderly-only households and they will waive the face-to-face interview with these applicants. The primary difference in the application process between the two groups of counties is that the treatment counties will only verify noncitizenship, while the comparison counties must continue with their standard verification procedures. Therefore, the evaluators should collect information from the comparison counties on the costs they incurred to use the simplified application.

If any important changes occur in the administrative environment at any site during the demonstration period—such as new FNS regulations about case processing that are independent of the demonstration—then general information about administrative costs from the comparison sites might be used to help quantify and subtract administrative costs in the demonstration site that are due to the new regulations.

If the evaluators request data directly from any of the comparison sites, the evaluation budget should include funds to reimburse these sites for their costs of providing these data.

TABLE IV.7
REPORTING COSTS
ORGANIZATION NAME
PILOT NAME

Type of Cost	Amount			
	Pre-demonstration	Year 1	Year 2	Total
Reports for USDA				
Quarterly Reports				
Financial Status Report (269A)				
Commodity Reports				
(Forms 388, 388A, 46, etc.)				
Providing Data to Evaluators				
Participation and benefit data				
Contact information for client survey				
Cost data				
Site visits				
Telephone conversations				
Attending Meetings				
Grantee Orientation Meeting				
Commodity Training—Part 2				
Evaluation Meeting—February 7				
Total Costs				

NOTE: Nominal dollar amounts are shown.